

REPORT ON APPLYING  
AGREED-UPON PROCEDURES  
RE: FY 2005 WESTERN DISTRIBUTION CENTER  
INVENTORY TESTING  
REPORT NUMBER A050192/S/F/S05006  
SEPTEMBER 28, 2005

**General Services Administration  
Office of Inspector General  
Washington, DC 20405**

To PricewaterhouseCoopers LLP:

We have performed the procedures enumerated below, which were agreed to by PricewaterhouseCoopers LLP (PwC) and the General Services Administration's (GSA) Office of Inspector General (OIG), solely to assist you in your review of the Western Distribution Center's Inventory as a part of your Audit of GSA's Fiscal Year (FY) 2005 Financial Statements. This engagement to apply agreed-upon procedures was performed in accordance with generally accepted government auditing standards and additional standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purposes.

1. Observe the receiving process to determine controls identified during the walkthrough and in the comfort matrix are being performed. Specifically,
  - A. Depending on location, observe and document a manual or input into Federal Supply Service – FSS-19 (merchandise receiving application/input system).
    - Observe a receiving operator performing a blind count and an inspection of the received merchandise for damage. Also observe the forklift operator noting his count on the bill of lading (manual) or receiving report (i.e.: FSS-19) and initialing the document.
    - For processing onto the system (i.e: for Sharpe, using the HighJump system), observe the forklift operator entering receipt information into the system, accepting or changing the system-generated inventory location, and attaching a barcode to the pallet and the receiving report.
    - For manual processing, observe a receiving clerk:
      - Filling out the receiving report (e.g., Form 3103).
      - Verifying that all receiving information (i.e., Purchase Order #, stock #, and quantity) matches the PO and the bill of lading.
      - Preparing batches of receipts for processing.
      - Entering information into FSS-19 and verifying the input.
      - Date stamping Form 3103.

- For FSS-19 processing, observe the receiving clerk:
  - Matching information (i.e., PO #, stock #, and quantity) to Consolidated Receiving Report (CRR) and PO folder.
  - Verifying that information was successfully processed by entering the PO# into the Stock Status screen.

All inventory processing observed at the Western Distribution Center was performed electronically. No manual processes were observed.

We observed the following controls for receiving merchandise at the Western Distribution Center:

- Receiving clerks performed blind counts of the merchandise received and ensured the shipment was not damaged.
- Forklift operators noted shipment counts on the receiving report and initialed the report.
- Forklift operators entered receipt information into HighJump, accepted the system-generated inventory location and attached barcodes to pallet and receiving reports.
- Receiving clerks in Document Control matched information to the CRR and the PO folder and verified that receiving information was successfully processed via the Stock Status screen.

No exceptions were noted.

- B. Observe and document receipt control procedures performed by Quality and Inventory Control Branch (QICB), e.g., comparing Form 1003 to the CRR, generating an Exception List (i.e., discrepancies between the CRR and information entered into the system), and performing spot checks of receipts.

We observed the procedures performed by the QICB. Specifically, we observed the processing of receiving documents (receipts) into FSS-19 and the steps performed the next day to correct input errors reported out of FSS-19. When the receiving clerk received a receipt document, the clerk matched receipt information to the Daily Consolidated Receiving Report Listing (IM1003) and the Purchase Order folder, and verified that receiving information was successfully processed via the Stock Status screen. The clerks also batched the receipt information, stamped a processing date on the Receipt Identification Sheet (RID), and created and filed a folder for the receiving documents processed.

The following day, an exception report (IM1801) was generated. This report displayed any input errors processed in FSS-19. A copy of this report was given to the technician, who entered the receiving transaction into FSS-19, to correct input errors. Once the transaction was corrected, the error in the exception report was highlighted and supporting documentation was provided, as necessary, to the Lead Supply Technician. The Lead Supply Technician maintained a file with all exception reports and supporting documentation and checked the subsequent IM1003 Report to determine if the error had been corrected.

- C. Observe and document the follow up on the exception listings (i.e. Exception List and the Administrative Report of Ad Receipt Status Holds) performed by an independent individual in receiving. Select samples in accordance with FAM guidance from a recent exception listing and verify that the discrepancies were corrected and reentered into the system in a timely manner.

We obtained the IM1801 dated July 28, 2005, and identified two input processing errors being reported. For both errors, an incorrect transaction code was recorded. We reviewed the IM1003 Report dated July 29, 2005, and verified that the transaction code was corrected for both errors.

2. Obtain fourth quarter FY04 and first quarter FY05 inventory reports produced by QICB. Ensure inventory reports were completed in a timely manner in accordance with FSS policies and procedures. Ensure inventory reports were reviewed and approved in accordance with FSS policies and procedures. Note any significant adjustments to the perpetual inventory records and reasons thereof. Inform the team leader of material adjustments significantly different from FSS' historical experience and our expectations.

We obtained three inventory reports dated September 16, 2004, November 10, 2004 and November 22, 2004. We found that two inventory reports (dated September 16 and November 10) were completed, reviewed, and approved timely in accordance with FSS policies and procedures. One inventory report (dated November 22), while reviewed and approved in accordance with FSS policies and procedures, was prepared 21 days after the inventory count was completed. FSS internal policies and procedures require completion of the inventory reports within 10 days of the inventory count.

In the Fiscal Year 2004 Management Letter, PwC reported, and management concurred, that inventory reports were not prepared timely. Western Distribution Center management stated that all of the initiatives to correct Fiscal Year 2004 reported findings had not yet taken effect in the early part of Fiscal Year 2005. GSA and PricewaterhouseCoopers were still finalizing the actions that needed to be taken to correct the reported problems.

In addition, we did not identify any significant adjustments to perpetual inventory records.

3. Select shipping transactions from bin and bulk and in accordance with FAM guidance. These items should have been processed in FY05. For selected shipping transactions from bin and bulk:
  - Verify that each shipment was based on an approved purchase order/requisition.
  - Verify that carrier initialed GBL.
  - Verify that manifest agrees to GBL.
  - Verify that the selector signed off on the shipment prior to turning it over to the carrier (at Sharpe, this is verified by the final scan before the truck door is closed). Obtain HighJump (dashboard) printouts showing last scan.

In accordance with Financial Audit Manual guidance, we selected a sample of 45 shipping transactions, 22 export shipments and 23 domestic shipments.

For the 22 export shipping transactions reviewed, we found the following:

- A purchase order was approved for 20 of the shipping transactions. For the remaining two transactions, no approval was identified.
- The government bill of lading was initialed for 19 shipping transactions. For the remaining three transactions, the carrier did not initial the government bill of lading.
- The manifest agreed with the government bill of lading and the selector signed off on the shipment prior to turning it over to the carrier for all 22 export shipping transactions.

For the 23 domestic shipping transactions reviewed, we found the following:

- We could not verify that each shipment was based on an approved purchase order. Purchase orders are placed electronically through GSA Advantage!, and the Western Distribution Center did not have access to the approved purchase orders in GSA Advantage!. However, we confirmed that each shipment contained a reference to a purchase order or a requisition.

- The government bill of lading was initialed for 19 shipping transactions. The remaining four transactions were FedEx shipments and government bills of lading are not used. We do not consider this an exception.
  - The manifest agreed with the government bills of lading for 19 shipping transactions. The remaining four transactions were FedEx shipments and government bills of lading are not used. We do not consider this an exception.
  - The selector signed off on the shipment prior to turning it over to the carrier for all 23 domestic shipping transactions.
4. From the Daily Consolidated Receiving Report listing (IM1003), select receipts, in accordance with FAM guidance. For the receipts selected:
- Verify that the receiving operator completed a receipt identification sheet (RID) and reconciled the information to the corresponding purchase order (PO), bill of lading, package slip; and noted the results of the count on the documents and initialed them.
  - If the count was different from the quantity per the bill of lading, verify that the document was also initialed by the carrier.
  - Determine whether information on IM1003 matches information on the bill of lading.

Also, verify the accuracy and timeliness of the related manual input into FSS-19 and ascertain that the aforementioned forms were date stamped. Further, if the manual input was not performed timely, inquire to receiving management the reasons for the delayed input into FSS.

We judgmentally selected a sample of 23 receipt shipments. We successfully determined that the receiving operator completed a RID and reconciled the information to the corresponding purchase order, bill of lading, and package slip for the 23 sampled items. We also determined that the receiving operator noted the results of the count on the documents and initialed them. We found that for those instances in which the quantity on the bill of lading was different from the actual merchandise count, the carrier also initialed the bill of lading. For the 23 sample items, the information on the IM1003 Report matched the information of the bill of lading. There were no manual inputs into FSS-19. (Note: This procedure was performed in conjunction with merchandise returns to provide a total of sample size of 45 as required by the FAM. See Procedure #8).

5. Through inquiry of FSS personnel and review of relevant procedures and instructions, determine whether:

- Cyclical count procedures and instructions are documented in proper detail.
- Cyclical count is performed by the QICB that is independent of depot (CSC) operations.
- Procedures are in place to control all documents in support of the inventory count.
- People who are performing the inventory have been adequately trained and they are familiar with counting procedures.
- Cyclical counts are carried out under proper supervision and that the supervisor is independent of the custody and recording of inventory.

Upon arrival at the depot (CSC), ask the QICB if there has been any changes to procedures. Also, tour the facility to become familiar with floor plan areas where the count was scheduled to be conducted and determine that:

- The arrangement of the inventory is such that an accurate count is possible.
- Inventory is in good condition with adequate storage space, and items are properly packed (bulked) or binned in a convenient manner for counting.
- Scrap, obsolete, and damaged goods are adequately identified and segregated.
- Inventory owned by third parties is adequately identified and segregated.

Note that inventory was excluded from merchandise that had been sold and was ready for shipment to customers.

Based on discussions with FSS personnel and our review of the inventory desk guide, we determined that only lot inventory counting is performed at the Western Distribution Center. Therefore, the above cycle counting procedures were not performed. However, for lot inventory counts, we determined the following based on discussions with FSS personnel:

- Inventory operations were performed in accordance with the Chapter 12.1 - Inventory Surveillance Desk Guide.
- The Western Distribution Center has evolved into an automated and less paper intensive supply distribution center.
- Management desires to move away from Lot Inventory Counting.
- Employees performing inventory counts are properly trained and are supervised.

- Inventory count supervisors do not have custody of the inventory and cannot record inventory.

Based on our tour of the Western Distribution Center on August 1, 2005, we determined that inventory was properly maintained to ensure accurate inventory counts, in good condition and adequately stored. We also found that obsolete inventory was maintained in separate areas, and third party merchandise was identified and segregated.

6. Judgmentally select items as follows and perform the following procedures:
  - From all Forms 3167 (items identified to be excessed) received in March 2005, select Forms 3167 and review these forms for completeness and proper approval. Using prior year walkthrough, update our understanding of the process leading to removal of obsolete and excess inventory from usable inventory balances via Forms 3222 (to document count of items identified to be excessed) and 120 (to transfer item from regular inventory to excess inventory). Examine Forms 3222 and 120 filled out for the above sample of Forms 3167 and note that the forms were complete and properly approved by QICB prior to input.
  - Select NSNs for obsolete and excess inventory from the floor and determine whether the items were recorded appropriately in FSS-19 (i.e., had a X status in the SSR).
  - Perform shelf life tests by identifying whether the item is Type I or Type II and determine that the items were reasonably excessed.

Type I – those whose shelf life cannot be extended.

Type II – those whose shelf life can be extended based on original shelf life.

Forty-two Long Supply Excess Determination Forms (Form 3167) were received in March 2005. We obtained and reviewed all 42 Form 3167s and supporting GSAXcess Forms (Form 120). We determined that all Forms 3167s and 120s (if appropriate) were complete and received proper approval. For Form 3167s, we ensured that each form contained an item description, unit price, and cost on hand, and verified that an inventory manager signed each form. Before commencing our review, we used prior year walkthroughs and updated our understanding of the process leading to the removal of obsolete and excess inventory.

We judgmentally selected a sample of 10 obsolete and excess inventory items from the floor and traced these items to FSS-19. No exceptions were noted.



For 10 sampled items we tested the shelf life. We determined that all items were Type 1, meaning the shelf life of these items cannot be extended, and were reasonably exceeded.

7. Obtain a listing of merchandise transfers-in and a listing of merchandise transfers-out from the depot Facility Manager. Select transfers in accordance with FAM guidance. From the Inter-Warehouse Transfers selected, determine whether:
  - Transfers were supported by written documentation identifying National Stock Number, physical description, quantity, and cost price.
  - The information on transfer documents was verified by someone other than the preparer, and that all transfers were approved by someone other than the person responsible for the preparation of the transfer documents.

Also, verify in FSS-19 that merchandise transfers are promptly accounted for by both the sending and receiving locations.

Forty merchandise transfers occurred during the period. We verified that all forty warehouse transfers were supported by documentation identifying the National Stock Number, the physical description, quantity, and cost. We did not test for approval or verification of the transfer documents because the transfer documentation is now system generated. Also, we were able to verify in FSS-19 that the merchandise transfer was promptly accounted for by both the sending and receiving locations.

8. Obtain a recent listing of return items that have been received at the depot. Select a sample based upon materiality. From the sample selected of returned items to the depot, perform the following:
  - Obtain and review the applicable due in report issued by NCSC
  - Ensure the return was posted properly and timely in FSS-19

From the recent listing of return items that have been received at the depot, select a sample of merchandise returns to vendors based upon materiality. From the sample selected of merchandise returned to vendor, perform the following procedures:

- Obtain authorization for the return by the vendors
- Ensure the returns were processed promptly
- Ensure the returns are supported by bills of lading and compare the PO's to the shipping documents

From the Due In Receipt Project Report (IM 1860), we judgmentally selected a sample of 22 merchandise return transactions based on materiality. The merchandise returns sample was selected in conjunction with the receipt sample. We determined that the merchandise was posted properly and timely in FSS-19 (the next day). For merchandise returned to the vendor, we found returns were authorized by the contracting officer, promptly processed, and supported by a bill of lading, purchase order, and shipping documents.

9. Review inventory adjustments, to:

- obtain the desired level of assurance that accuracy is achieved,
- ensure adjustments to the general ledger and,
- if appropriate, the detailed inventory records resulting from the client's physical inventory.

While reviewing inventory adjustments, investigate the reasons for significant adjustments. If not covered by comfort from controls, determine that adjustments have been approved by an appropriate official.

We obtained inventory adjustment reports dated November 3, 2004, and November 8, 2004. We determined that adjustments on the report were appropriate, and could be traced to the general ledger and the detailed inventory records listing. We verified that the adjustments were approved and researched to determine why the adjustments had to be made. However, an adjustment over \$1,000 was not approved timely by the director of the Western Distribution Center and we did not see an approved Stock Adjustment Report for seven adjustments over \$1,000.

In the Fiscal Year 2004 Management Letter, PwC reported and management concurred that inventory adjustments reports were not prepared appropriately and approved timely. Western Distribution Center management stated that all of the initiatives to correct Fiscal Year 2004 reported findings had not yet taken effect in the early part of Fiscal Year 2005. GSA and PricewaterhouseCoopers were still finalizing the actions that needed to be taken to correct the reported problems.

10. From the accounting records, select reports containing the results of cycle counts that are representative of the period under examination. From reports selected that contains the results of cycle counts that are representative of the period under examination, determine that reports are (1) received by accounting department on a timely basis, (2) complete, and (3) reviewed by a responsible official; and determine that results of cycle counts are compared with perpetual inventory records and that any variances are identified, investigated, and resolved on a timely basis. Also, examine documentation that supports adjustments made to perpetual inventory record, determine that the summary of the variances has been approved by an appropriate official, and if test counts of inventory were performed at year end, tie the counts to ending perpetual inventory.

Based on our discussions with FSS personnel and our review of the inventory desk guide, we determined that only lot inventory counting is performed at the Western Distribution Center. Therefore, the above cycle counting procedures were not performed. See Procedures #2 and #9, for similar lot count controls.

11. After all count cards had been picked up, obtain a summary of the count cards issued, used, unused and voided. Account for all cards used for detail listings to ensure that the count card sequence was complete, the voided and unused count cards were excluded, and no additional count cards were added.

We obtained a summary of count cards for the August 3, 2005, inventory count. We also obtained the "Pre-Inventory Reconciliation Listing" for the same counts. We accounted for all count cards on the reconciliation listing, ensuring that the count card sequence was complete, there were no unused or voided count cards included, and no additional count cards added. No exceptions were noted.

12. Based upon materiality and inherent risk, make independent test counts to confirm the accuracy of the client's procedures; select and reperform recorded client counts to test their accuracy and independently count and compare inventory items with quantities recorded by the client. Also, prepare a memorandum describing cycle counting procedures employed by the client, significant observations, and conclusions regarding reliability of cycle counting procedures.

Based upon materiality and inherent risk, we selected a sample of 15 inventoried items. We independently counted each item and compared our count to the count recorded by a Western Distribution Center employee. No exceptions were noted.

Based on our discussions with FSS personnel and our review of the inventory desk guide, we determined that only lot inventory counting is performed at the Western Distribution Center. Therefore, the above cycle counting procedure was not performed.

13. Obtain final costed detail listings/physical inventory reconciliation detail record listing. Verify the mathematical accuracy of the final costed detailed listing, including possible extension errors. Trace the quantities, description, NSN, cost, serial number, increment number and other pertinent data on the count card to the detail listing. Observe proper approval and prompt recording of book to physical adjustments to perpetual inventory records in FSS-19. Agree costs assigned to quantities (on the detail listing) (select XX items) to appropriate cost records in NAF Accessory Manager Screen/FSS-19. Review inventory quantities and unit costs on the detail listings for reasonableness of unit costs when related to the type of items.

We obtained the final Physical Inventory Reconciliation Detail Listing for the inventory conducted on August 3, 2005. We verified that the Physical Inventory Reconciliation Detail Record Listing was mathematically accurate and traced pertinent data on the count cards to the detailed listing. We verified that physical adjustments to the inventory were properly approved and promptly recorded in FSS-19. We confirmed that the unit costs and quantities listed on the Physical Inventory Reconciliation Detail Record Listing and the NAF Accessory Manager Screen/FSS-19 agreed. Finally, we selected 25 items from the inventory count sheets and determined that the unit costs for these items were reasonable based on the unit costs charged at retail outlets.

This report is intended solely for the information and use of PricewaterhouseCoopers LLP and the General Services Administration's Office of Inspector General and is not intended to be and should not be used by anyone other than these specific parties.



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September 28, 2005

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